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UNCLAS SECTION 01 OF 02 DJIBOUTI 001598

SIPDIS

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SUBJECT: DJIBOUTI - 2005 NATIONAL TRADE ESTIMATE

REF: STATE 240980

1. SUMMARY: DJIBOUTI OFFERS A STABLE POLITICAL ENVIRONMENT IN A HISTORICALLY UNSETTLED REGION. DJIBOUTI HAS MAINTAINED CLOSE COMMERCIAL LINKS WITH FRANCE, WHICH WAS FORMERLY THE COLONIAL POWER AND MAINTAINS A LARGE MILITARY PRESENCE IN THE COUNTRY. HOWEVER, DJIBOUTI IS NOW SEEKING TO EXPAND ITS ECONOMIC RELATIONS WITH OTHER COUNTRIES, ESPECIALLY THE UNITED STATES. THE DJIBOUTIAN MARKET COULD PROVIDE OPPORTUNITIES FOR U.S. BUSINESS IN SECTORS SUCH AS TELECOMMUNICATIONS, TRANSPORT, ENERGY AND WATER PROCUREMENT. DJIBOUTI HAS NO MAJOR LAWS OR REGULATIONS THAT WOULD DISCOURAGE FOREIGN INVESTMENT. CHALLENGES FOR POTENTIAL INVESTORS INCLUDE THE HIGH COST OF LIVING AND TELECOMMUNICATIONS SERVICES, AS WELL AS A SHORTAGE OF SKILLED WORKERS. FLUENCY IN FRENCH AND FAMILIARITY WITH FRENCH BUSINESS PRACTICES IN AFRICA WILL FACILITATE BUSINESS CONNECTIONS. THE DJIBOUTIAN GOVERNMENT HAS RECENTLY ESTABLISHED AN INDEPENDENT AUDITING UNIT IN AN EFFORT TO OVERCOME PROBLEMS OF CORRUPTION AND LACK OF TRANSPARENCY IN THE DECISION MAKING PROCESS. U.S EXPORTS TO DJIBOUTI IN 2003 WERE US \$31.7 MILLION AND CONSISTED PRIMARILY OF FOOD PRODUCTS AND USED CLOTHING. END SUMMARY.

Import Policies

2. A license is required to sell or import to Djibouti. The cost of licensing varies according to the professional or commercial activities undertaken and the value of the imported goods. Regular import taxes vary from 5% to 40% according to the nature of the merchandise. Ready-made clothing is taxed 20% while raw textile materials are subject to only an 8% tax. Although basic commodities enjoy low import taxes, goods such as cigarettes and alcoholic beverages have required surplus taxes of 70% and 160% respectively.

3. Customs officials require a commercial invoice with the bill of lading or the airway bill for all goods entering the country. Shipping marks and numbers on the bill of lading must correspond exactly with those on the invoices and goods. The goods should be cleared within four to ten days of arrival; otherwise they will be moved to a warehouse and additional fees will be levied. Cigarettes, fuel, cosmetics and other products smuggled through the borders compete with legally imported products and represent an important loss of revenue for the government.

Standards, testing, labeling, and certification

4. There are no specific labeling or marking requirements on imports, except for cigarettes. On order to fight the increasing contraband from neighboring countries the government has requested cigarette importers to pre-label product destined for the Djiboutian market. It is advisable to print any label or marking in French, which is widely understood in Djibouti. Djibouti's office for norms quality control is still in its nascent stages; thus, specific standards do not yet exist. No testing is performed on any product before consumption. In the case of pharmaceutical products, health authorities examine deliveries and issue a certificate to the importer after ensuring that a no prohibited product is included. The list of prohibited pharmaceutical products is publicly available and can be obtained with the assistance of the Embassy. Other prohibited imports include illegal drugs, specific medical products, environmentally hazardous chemicals, toxic waste and some cosmetics.

Government procurement

5. Government procurement is conducted through the Ministry of Finance. If the value of the goods is less than Djiboutian Francs (DF) 5 million (US\$ 28,257), procurement is made directly from the vendor. Conformity of the goods is verified by a Treasury official before payment is rendered. If the amount of the order exceeds DF 5 million, the Ministry of Finance calls for tenders, especially for projects financed by international donors.

Export subsidies

16. In 2003, Djibouti exported goods valued at about US\$ 89 million. Exports consisted mainly of personal effects, personal vehicles, hides, skins, salt, and re-exported products. The government of Djibouti does not subsidize exports.

Intellectual property protection

17. A provision for intellectual property protection (IPR) exists in the penal code, which is inherited from the French. However, it is not enforced. Djibouti joined the African Organization for Intellectual Property Rights in 1993. In addition, Djibouti ratified World Intellectual Property Organization (WIPO) convention, Paris convention on the protection of industrial rights, and Bern convention on the protection of literature and art works in January 2002. An increasing number of counterfeit products have come to the attention of the Ministry of Justice in recent years. Post is not aware of any existing prosecution for IPR infringement.

Services barriers

18. The government of Djibouti welcomes all foreign direct investment. Djibouti's assets include a strategic geographic location, an open trade regime, a stable currency, substantial tax breaks and other incentives. The government of Djibouti has placed privatization, economic reform, and increased foreign investment as top priorities.

19. Telecommunications and other state-owned public utilities are increasingly open to investors. Dubai Port International (DPI) manages both the port and airport. DPI is also the main investor in the Port of Doraleh project, which is slated to be completed in 2005 and will consist of an oil terminal, a container terminal and an industrial and commercial free zone. Djibouti Telecom and the Railway Company are slated for privatization. Conditions of the IMF's structural adjustment agreement for Djibouti stipulate increased privatization of government-owned monopolies.

Investment barriers

10. Djibouti's investment code guarantees investors the right to import all goods, equipment, products, or material necessary for their investment activities; freely display products and services; determine and run marketing policy and production; choose customers and suppliers; and set prices. Foreign investors are also free to determine their own hiring/firing policy as long as it conforms to the labor code. Some foreign observers have commented that the current labor code inordinately favors employees and thus deters increased foreign investment. In response, a new labor code has been drafted and is in the legislative approval process. If passed, it is expected to shift the balance of power favorably to employers.

11. Djibouti has no foreign exchange restrictions. There are no limitations on converting or transferring funds or on the inflow and outflow of cash. The Djiboutian franc, which has been pegged to the U.S. dollar since 1949, is stable and easily converted to U.S. dollars or European currency. The fixed exchange rate is 177.71 Djiboutian francs to the dollar.

12. Corruption is an issue in Djibouti, although it is not as prevalent as in many other parts of the developing world. It poses a major problem in the judicial system and results in an extreme mistrust by foreign investors. Anti-corruption laws exist but are rarely enforced. In the past five years, the government has established both the Chamber of Accounts and Fiscal Discipline (CAFD) and the State General Inspection to address corruption. The CAFD has the authority to verify and audit all public establishments for transparency and accountability and take necessary legal sanctions. The State General Inspection is designed to complement the work of the CAFD by ensuring that human and material resources in the public sector are properly utilized.

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